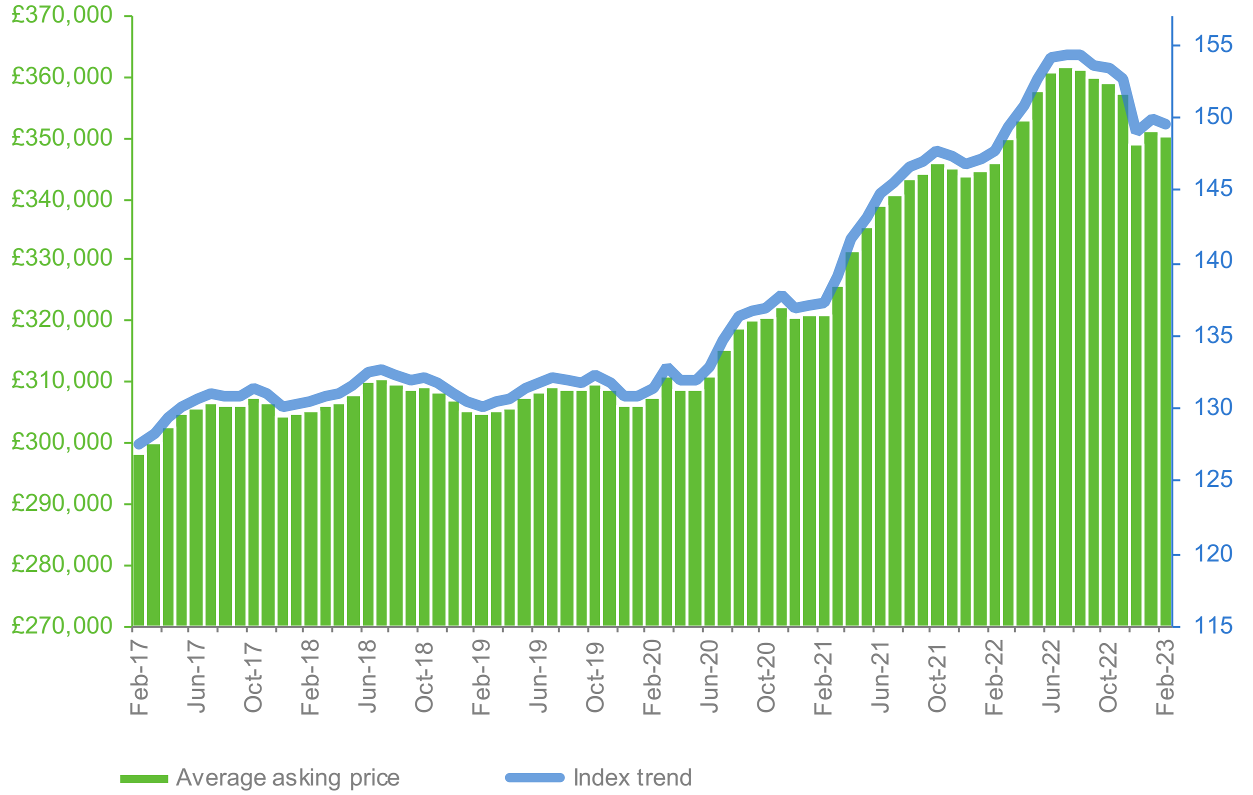
Prices Stabilising and Stock Levels Heading Back to Normal

Headlines

- Asking prices across England and Wales dipped by a slight 0.2% during January following the surprise bounce of 0.6% in December, making the year-on-year growth just 1.3%.
- Asking prices rose in six English regions and Scotland during January.
- The number of properties withdrawn from the market has fallen for the second consecutive month since the peak in November, although total withdrawals were still 56% higher last month than in January 2022.
- Following a contraction in December, the total sales stock count for England and Wales swelled in January by nearly 16,000 to reach 369,053, although this total remains less than the 10-year average of 423,417.
- The supply of new instructions remains moderate overall, with just 1% growth last month compared to January 2022.
- The Typical Time on Market for unsold property in England and Wales rose again during January, adding six days to make the median 100 days, which is comparatively short for this time of year.
- Eight English regions, Scotland and Wales now show elevated median marketing times compared to February 2022 when the market was roaring ahead. In stark contrast, Greater London shows a year-on-year reduction.
- The Scottish property market now leads in annualised regional price growth (5.9%), ahead of Yorkshire at 5.3%.
- Rents across Greater London are up 21% year-on-year. Lack of supply is still a major problem but the pace of the rent hikes is slowing (especially in the more central boroughs), suggesting that affordability limits have been reached.
- The current new growth leaders in asking rents are the outer London boroughs of Harrow, Redbridge and Brent (+35%, +34% and +34% annualised respectively).

For media enquiries and interviews please contact: press@home.co.uk 0845 373 3580
The Home.co.uk Asking Price Index was originally devised in association with Calnea Analytics Ltd

Home Asking Price Trend for England & Wales



Source: Home.co.uk Asking Price Index, February 2023, Indexed to May 2004 (Value=100).

Summary

UK home prices adapted quickly to higher mortgage rates during the latter part of 2022 and look set to stabilise over the coming months. The 0.2% dip in asking prices during January may well have already factored in this month's further hike in the Bank of England base rate, which was widely anticipated. Further minor adjustments in asking prices may follow depending on the strength of demand, which typically increases in the spring months.

Stock levels are also recovering following the unprecedented buying frenzy that occurred in 2021 and early 2022, but as yet remain below the 10-year average despite significant recent additions. Marketing times are also returning to pre-COVID levels, further indicating a return to more normal market conditions. The current Typical Time on Market for unsold property has increased swiftly over recent months to 100 days, but this figure is 16 days less than in February 2020.

The vital signs of the market are reassuring and counter the doom and gloom forecasts trumpeted by institutions and pundits that should know better. After all, real mortgage rates are still highly negative and this provides an unprecedented tailwind for the sales market. Moreover, the chronic housing shortage (both rental and sales) has not gone away. If anything, it has worsened due to supply chain problems and higher financing costs for builders.

The doomsters conveniently ignore two key factors, namely the vibrant rental market and a lack of oversupply in the sales market. The number of properties withdrawn from the sales market has been significant over recent months. Many of these will have been channelled

into the rental market, which seemingly has an insatiable appetite for new stock and strong returns. This method of monetising unsold stock may therefore be regarded as a pressure release valve for the sales market should an excess of inventory become an issue.

The vital signs of the Greater London market are looking particularly encouraging. In stark contrast with the rest of the country, the capital did not benefit from the COVID boom. On the contrary, London suffered a serious slump in both sales and rentals. The rental market was the first to recover as tenants returned post-lockdown, resulting in spiralling rents and vastly improving yields.

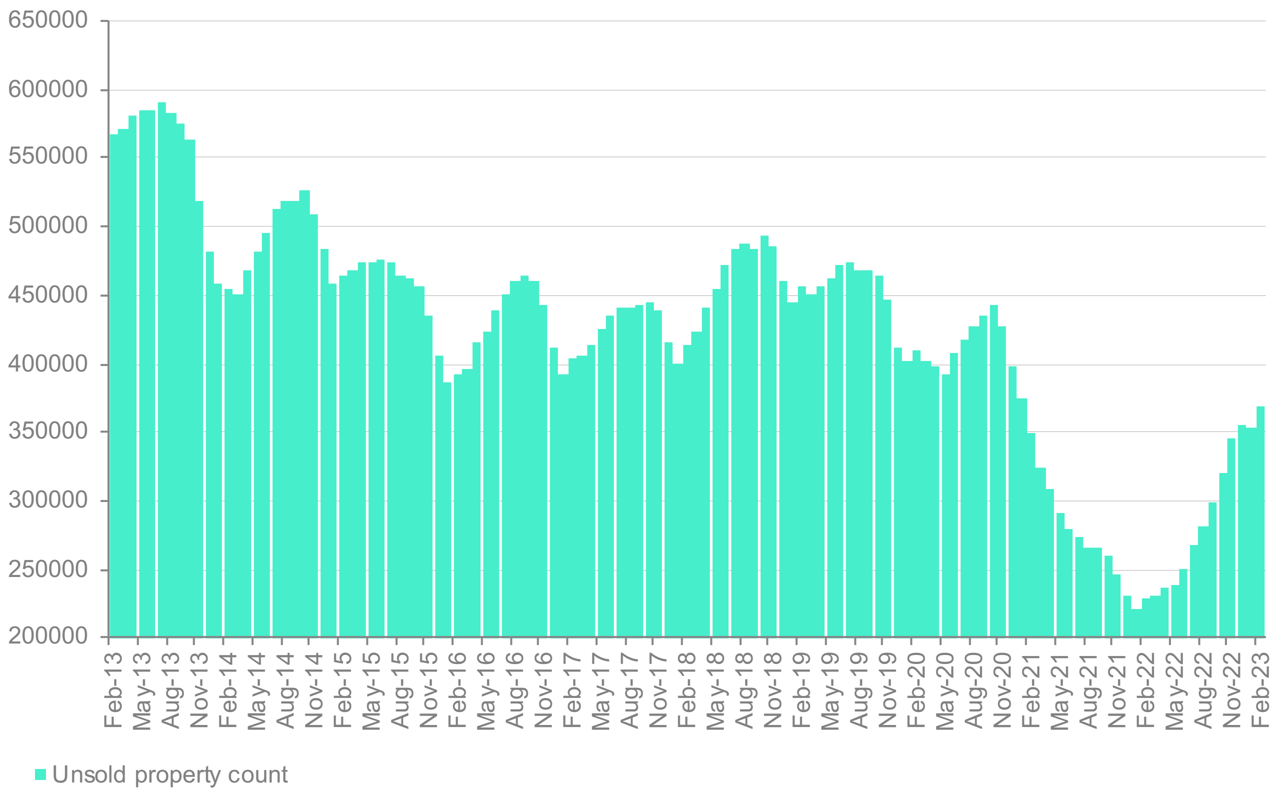
Now the sales market looks set to show growth, given the very modest supply of new instructions, falling stock since November last year and, importantly, a Typical Time on Market that remains lower than in February 2022. Added to that, the median price of a flat remains 15% lower than it was in 2016, so there's plenty of room for capital gains.

Monetary inflation may have reduced slightly over the last two months but it remains exceedingly high. The latest hike in the Bank of England base rate may well be the last for a while. Meanwhile, mortgage rates have headed in the opposite direction with deals of 4% becoming plentiful (a clear indication that lenders expect the base rate to fall).

We therefore look set to enjoy negative real mortgage rates for the rest of this year (perhaps longer) and this unprecedented situation will serve to support prices strongly. Home prices, therefore, look set to fall in real terms but not in terms of pounds and pence.

The annualised mix-adjusted average asking price growth across England and Wales is now 1.3%; in February 2022, the annualised rate of increase of home prices was 7.7%.

Total Stock of Property for Sale, England and Wales



Source: Home.co.uk Asking Price Index, February 2023

Asking prices slipped -0.2% in January following the +0.6% bounce registered in December as prices adjusted to the new normal. The mix-adjusted average is currently 13.9% higher than it was in February 2020 when the official COVID saga began in the UK.

During the 2008 financial crisis, which was precipitated by the BoE constantly hiking rates to hit a maximum of 5.75% in July 2007, the mix-adjusted home price fell a total of 9.0% from peak to trough (Feb 2011), although the recovery was already well underway in London at that point in time.

Bearing in mind that, unlike now, this decline included a period when mortgage credit was completely absent (as banks and their insurers were failing due to their fraudulent activities being revealed) and properties piled up on the market to reach twice the present stock level, the current situation looks relatively benign. The fall in the national average since the peak in July last year is currently 3.1%.

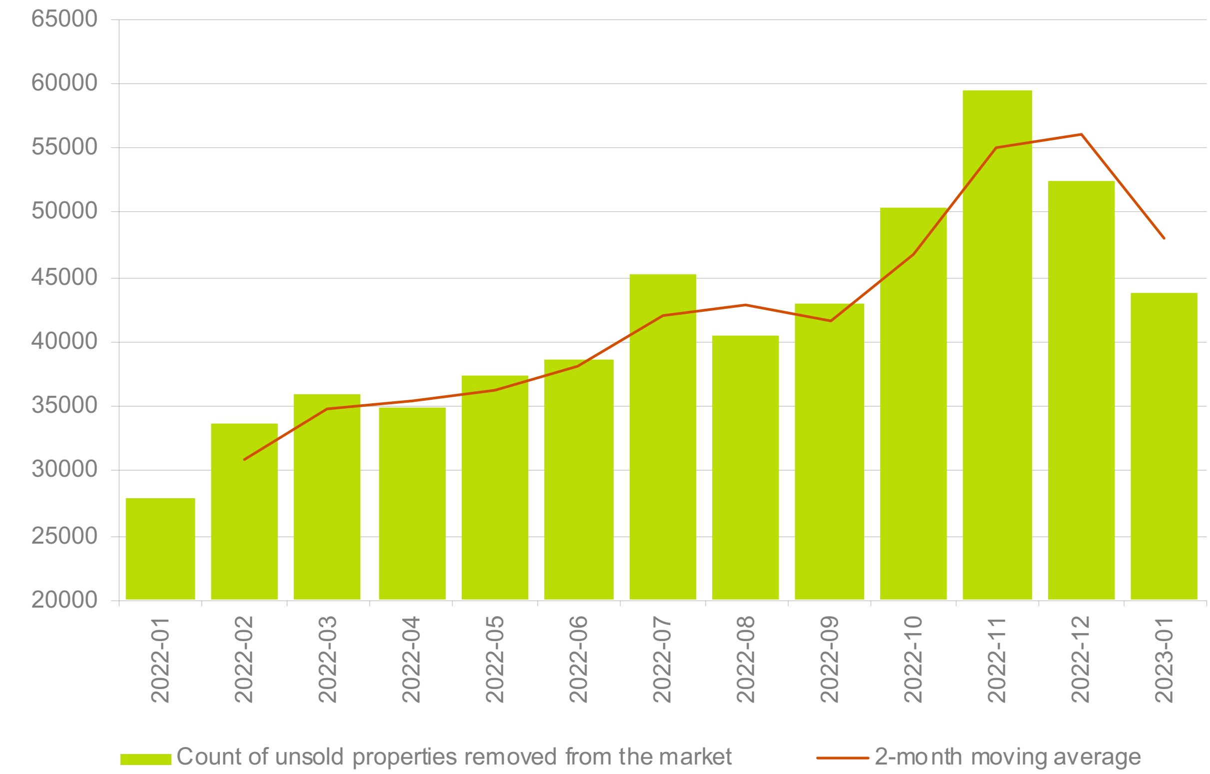
Despite a rise in the unsold property count last month, the total remains far below pre-COVID levels and well below that of the 10-year average of 423,870. There appears to be no panicked rush to market by vendors; in fact, on average, agents have yet to fully repopulate their portfolios. While stock levels remain relatively low, prices are unlikely to fall significantly.

The number of properties being withdrawn from the market remains significant (see chart), relative for example to the number of new instructions which was around 93,000 last month.

Regional Roundup

The overall stock of unsold property on the market is increasing. However, there is considerable variation in the rate of recovery of inventory on a regional basis. Those regions that restock the

Properties Withdrawn from the Market, Mainland UK



Source: Home.co.uk Asking Price Index, February 2023

most rapidly are likely to suffer the greatest supply-side shock, leading to market stagnation and downward price pressure.

Estate agents have been busiest replenishing their portfolios in the South West, Wales and East Midlands. Stock levels in these regions were particularly depleted during the race for space prompted by the COVID lockdown measures. Stock recovery in the other regions, outside of London, is significant but less pronounced. Indeed, the North East and Scotland have seen only moderate increases in stock and this bodes well for price stability and even growth going forward.

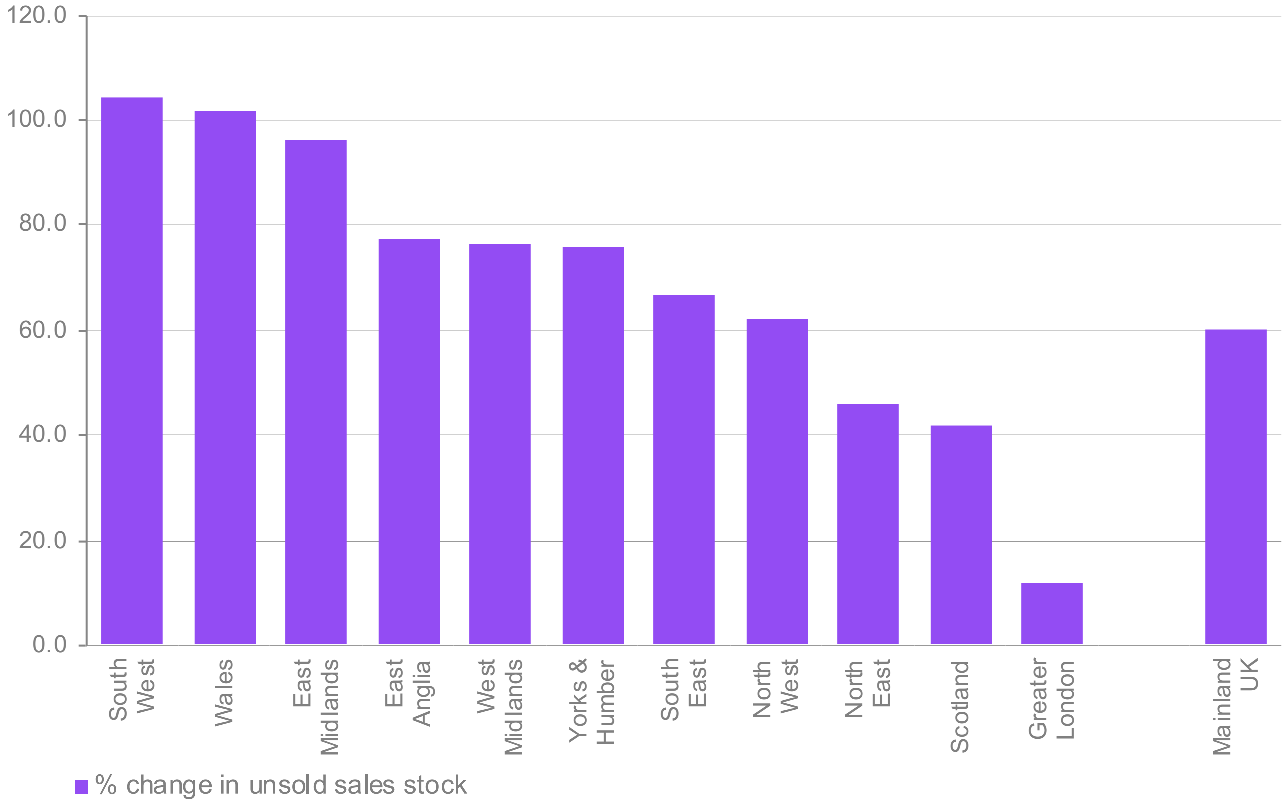
London's increase of just shy of 12% is tiny by comparison but is understandable in that the recent COVID boom did not occur in the capital region. On the contrary, demand was notably absent and stock was not depleted. In fact, despite having cleared a large surfeit of properties that built up during the lockdowns, the current stock level remains slightly above the recent minimum set in May 2020.

It is important to note that the capital's property market is unique in being the only region to not show an increase in the Typical Time on Market. In fact, this measure of market vitality is currently five days less than it was in February 2022. Such a decline coupled with limited supply portends a return to growth.

In stark contrast, the East Midlands has experienced the most significant braking effect; a rise in the Typical Time on Market from a blistering 64 to a more moderate 93 days. The current figure is not extraordinary and is merely consistent with the median time on market indicated in pre-COVID Feb 2018 and Feb 2019.

Of course, this figure may increase further over the coming months, in view

Rise in Total Properties for Sale by Region, Feb 2023 vs. Feb 2022



Source: Home.co.uk Asking Price Index, February 2023

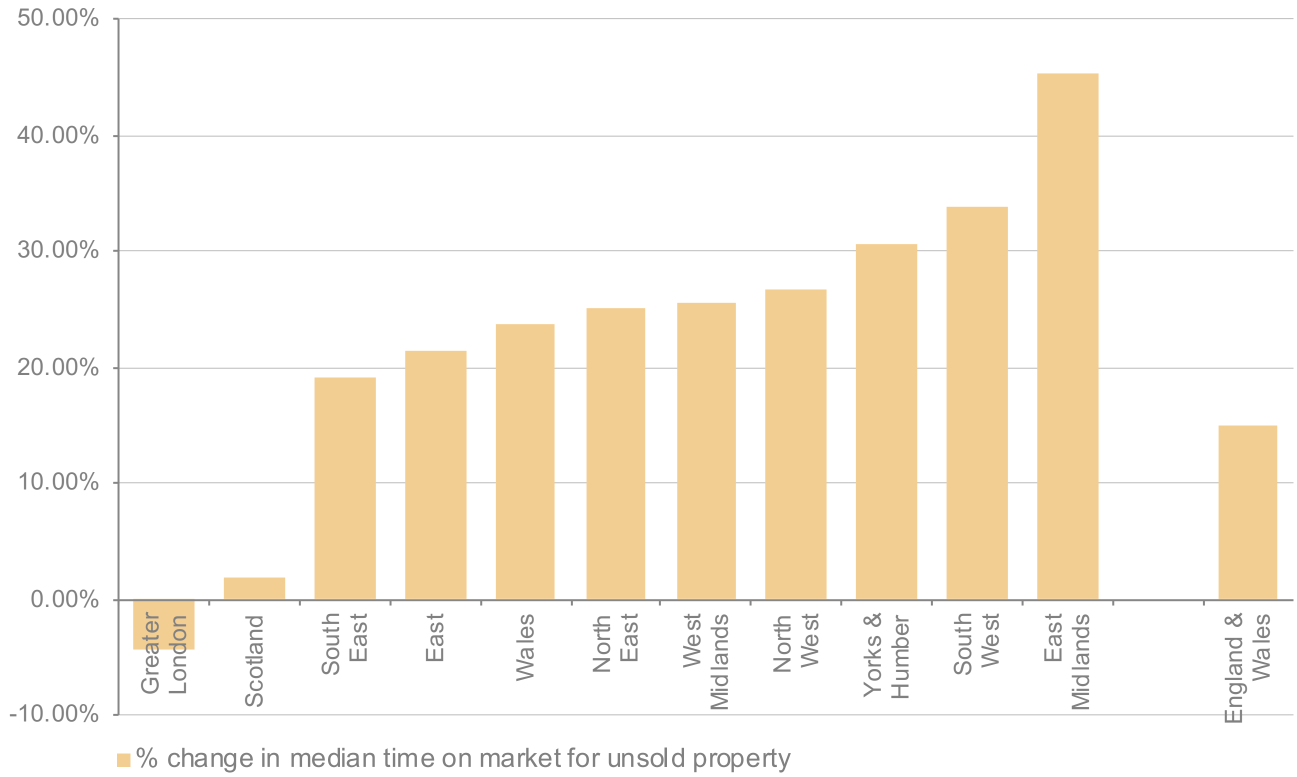
of the near doubling of sales inventory over the same period and lesser demand, but for the time being the change merely indicates a return to more normal market conditions.

The same trend applies to most regions, with about half having simply returned to a more normal pace while the rest are slowing but still indicating an elevated pace relative to pre-COVID market performance.

Asking prices movements resulted in a mixed performance of risers and fallers amongst the regions during the last month. The largest rise was in Scotland (+0.5%) followed by the North West (+0.4%) while the largest falls were in Greater London (-1.0%) and Wales (-0.7%).

Such a varied picture suggests that the market is in the final stages of price adjustments in response to changes in mortgage costs and certainly not in the midst of a precipitous decline.

% Change in Typical Time on Market, Feb 2023 vs. Feb 2022



Source: Home.co.uk Asking Price Index, February 2023

The latest 0.5% hike in the base rate by the Bank of England was widely anticipated and has had little effect on the mortgage market.

Perhaps surprisingly, some mortgage deals have become cheaper, which strongly suggests that the central bank may cut rates sooner rather than later. This may seem odd, since the battle with inflation (the BoE's claimed prerogative) is far from won. However, given that the UK is widely predicted to enter a recession in 2023 and has an appalling current account deficit, it's not difficult to imagine that rates may well be cut sooner rather than later and the 2% inflation target conveniently ignored. As I have said before, given the country's debt and economic dependence on the housing market, there's no way the BoE can 'do a Paul Volcker' (inflation-busting chairman of the US Fed in the 1980s). It would be simply too painful.

The ability of the UK to produce its way out of this mess is being hampered not only by a huge rise in input costs but also by a shrinking workforce. Reporting for CNBC, Elliot Smith states that 'the U.K. economy is being hammered by record numbers of workers reporting long-term sickness.

'The Office for National Statistics reported that between June and August 2022, around 2.5 million people cited long-term sickness as the main reason for economic inactivity, an increase of around half a million since 2019.

'The number of "economically inactive" people — those neither working nor looking for a job — between the ages of 16 and 64 has risen by more than 630,000 since 2019. Unlike other major economies, recent U.K. data shows no sign that these lost workers are returning to the labour market, even as inflation and energy costs exert huge pressure on household finances.'

This is clearly a disconcerting trend, especially as the ONS states: 'While older people still make up the majority of those inactive because of long-term sickness, the largest relative increases in recent years have been among those aged 25 to 34 years.' Clearly, larger numbers of the young being added to the already large long-term sick list is deeply concerning and will create an onerous burden for the UK economy.

Some commentators blame long COVID, while others blame the crisis in the NHS. Of course, no one officially considers the possibility that a rushed mass vaccination campaign using novel mRNA technology has anything to do with it because that discussion is strictly taboo, as MP Andrew Bridgen demonstrated recently.

Demographic trends are vital in understanding and predicting housing needs and the future performance of the wider economy. A silver lining in the dark clouds lingering over the UK economy is the tightness of the jobs market. Those in work (and who stay well enough to continue) look likely to keep their jobs or even find better remuneration as employers seek to plug the gaps in their workforce. Job losses, therefore, are unlikely to be a significant factor in increasing sales supply for the time being but that depends on how deep the recession will go.

Doug Shephard
Director at Home.co.uk

UK Asking Prices

England & Wales	Feb-23
Average Asking Price	£350,246
Monthly % change	-0.2%
Annual % change	1.3%

Scotland	Feb-23
Average Asking Price	£218,397
Monthly % change	0.5%
Annual % change	5.9%

North East	Feb-23
Average Asking Price	£186,505
Monthly % change	1.1%
Annual % change	4.9%

Yorks & The Humber	Feb-23
Average Asking Price	£241,340
Monthly % change	0.3%
Annual % change	5.3%

North West	Feb-23
Average Asking Price	£254,877
Monthly % change	0.4%
Annual % change	5.2%

West Midlands	Feb-23
Average Asking Price	£296,004
Monthly % change	0.4%
Annual % change	2.8%

East Midlands	Feb-23
Average Asking Price	£283,897
Monthly % change	0.2%
Annual % change	2.7%

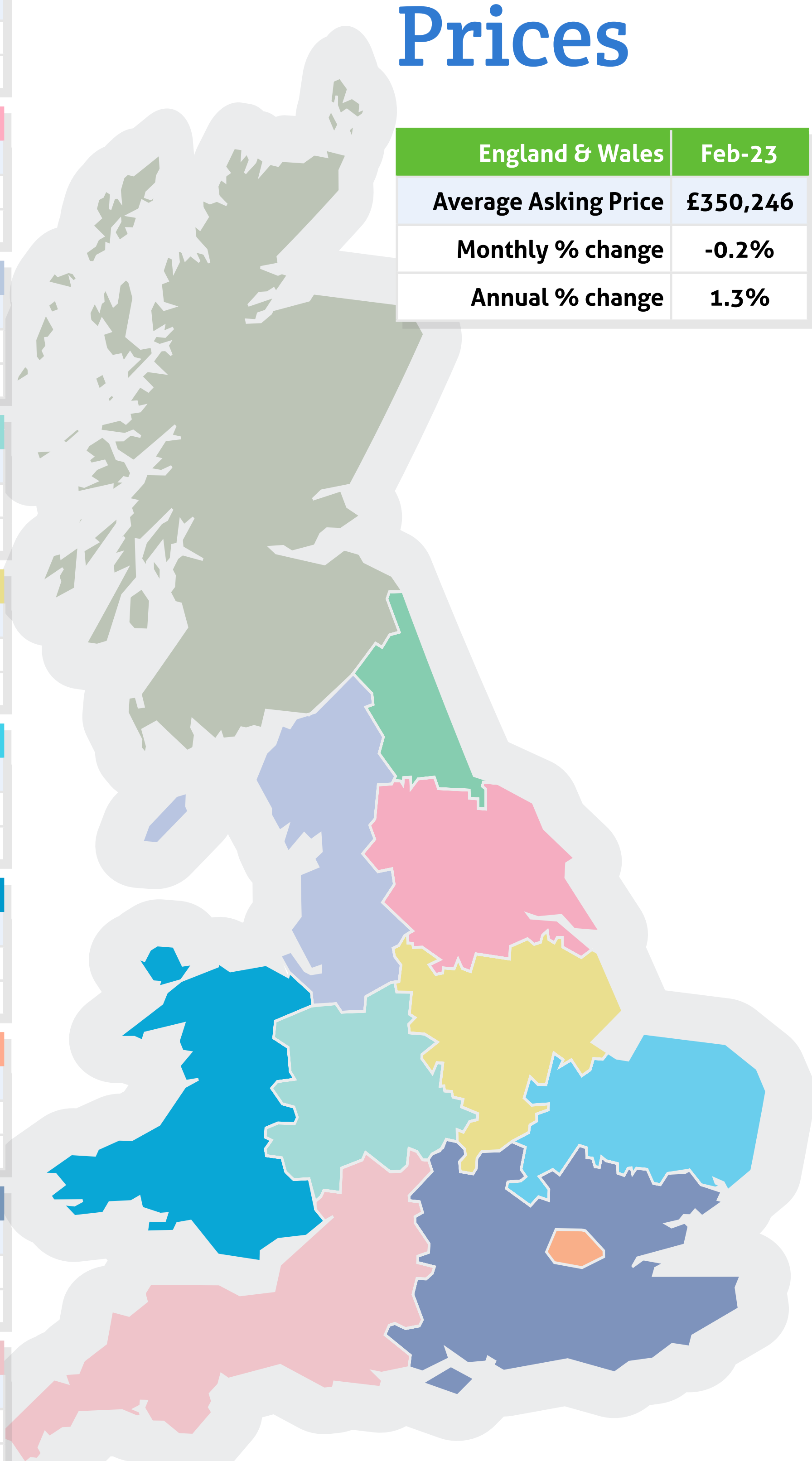
East	Feb-23
Average Asking Price	£397,049
Monthly % change	0.1%
Annual % change	-0.6%

Wales	Feb-23
Average Asking Price	£256,897
Monthly % change	-0.7%
Annual % change	2.9%

Greater London	Feb-23
Average Asking Price	£543,118
Monthly % change	-1.0%
Annual % change	-1.6%

South East	Feb-23
Average Asking Price	£439,649
Monthly % change	-0.4%
Annual % change	-0.1%

South West	Feb-23
Average Asking Price	£376,010
Monthly % change	-0.5%
Annual % change	2.5%



Source: Home.co.uk Asking Price Index, February 2023

UK Time on Market

England & Wales	Feb-23
Average Time on Market	160
Typical Time on Market	100
Annualised % supply change	1%

Scotland	Feb-23
Average Time on Market	210
Typical Time on Market	106
Annualised % supply change	-8%

North East	Feb-23
Average Time on Market	156
Typical Time on Market	100
Annualised % supply change	-9%

Yorks & The Humber	Feb-23
Average Time on Market	137
Typical Time on Market	94
Annualised % supply change	3%

North West	Feb-23
Average Time on Market	156
Typical Time on Market	100
Annualised % supply change	-1%

West Midlands	Feb-23
Average Time on Market	150
Typical Time on Market	98
Annualised % supply change	2%

East Midlands	Feb-23
Average Time on Market	129
Typical Time on Market	93
Annualised % supply change	4%

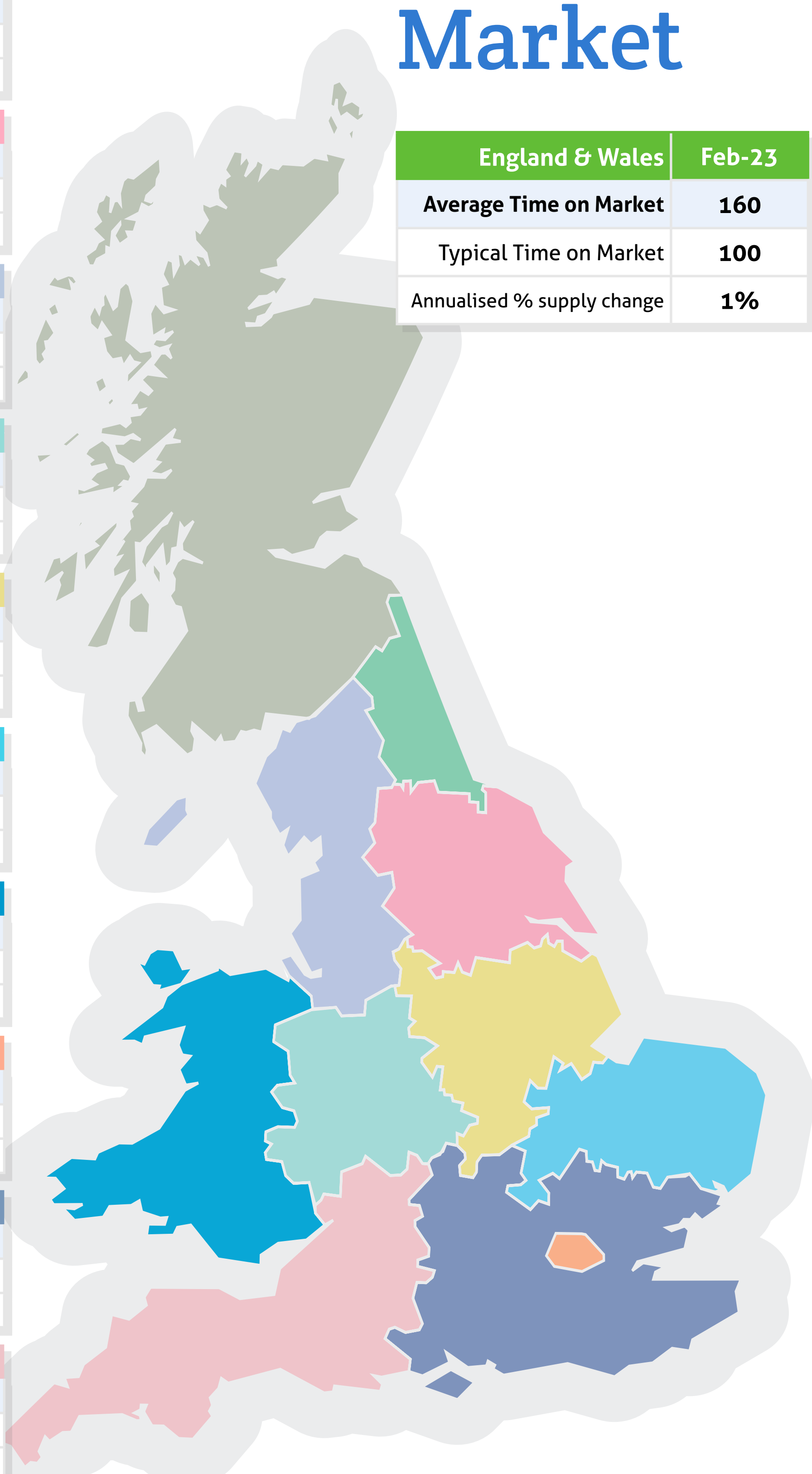
East	Feb-23
Average Time on Market	141
Typical Time on Market	91
Annualised % supply change	9%

Wales	Feb-23
Average Time on Market	161
Typical Time on Market	110
Annualised % supply change	8%

Greater London	Feb-23
Average Time on Market	195
Typical Time on Market	107
Annualised % supply change	-3%

South East	Feb-23
Average Time on Market	150
Typical Time on Market	94
Annualised % supply change	3%

South West	Feb-23
Average Time on Market	145
Typical Time on Market	95
Annual % supply change	8%



Source: Home.co.uk Asking Price Index, February 2023. Average = Mean (days), Typical = Median (days).

About the Home.co.uk Asking Price Index

- The Home.co.uk Asking Price Index was originally devised in association with Calnea Analytics: the statistical consultancy responsible for the production of the official Land Registry House Price Index.
- The Home.co.uk Asking Price Index (HAPI) is calculated using a weighting system based on the DCLG (formerly ODPM) Survey of English Housing Stock (published March 2006). This allows for enhanced regional delineation and conforms to the current geographical orthodoxy as set out by the Office of National Statistics.
- The HAPI is the UK's only independent forward market indicator. The published figures reflect current and historic confidence of buyers and sellers of UK property on the open market. The HAPI is calculated every month using around 500,000 UK property house prices found in the Home.co.uk Property Search Index. This figure represents the majority of the property for sale on the open market in the UK at any given time.
- The HAPI is based on asking price data which means the index can provide insights into price movements around 5 months ahead of mortgage completion and actual sales data – thus making it the most forward looking of all house price indices. Properties above £1m and below £20k are excluded from the calculations.

Contact details and further information

- For media enquiries please contact:
  press@home.co.uk
  0845 373 3580
- To learn more about Home.co.uk please visit:
  https://www.home.co.uk/company/about.htm
- For further details on the methodology used in the calculation of the HAPI please visit:
  https://www.home.co.uk/asking_price_index/Mix-Adj_Methodology.pdf
- To learn more about Home.co.uk data services please visit:
  https://www.home.co.uk/company/data/

Future release dates:

- **Wednesday 15th March**
- **Wednesday 12th April**
- **Friday 12th May**